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GCD09 Enduring NTS Exit Capacity Price Setting – Results

Gas TCMF 2nd December 2010

Introduction

Discussion Paper "NTS GCD09 – Enduring NTS Exit Capacity Charge Setting" has now closed out. 9 responses were received.

This presentation will:

1. **Highlight the main issues, identified within GCD09, in respect of the charging methodology to be implemented from 01st October 2012 in respect of NTS Exit (Flat) Capacity charges. These issues are:**
   - Demands vs. Supplies
   - Price Variability
   - Baseline may no longer be reflective of "connected load"

2. **Summarise the responses received in respect of options identified for use as the:**
   - Modelled Demand flow in the Transportation Model
   - Modelled Supply flows from Beach/UKCS sources in the Transportation, as well as options for their treatment.

3. **Next Steps**

Issues

- **Issue One - Demands vs. Supplies**
  - The use of Baseline + Incremental capacity as the modelled demand flow could potentially create a demand level so high that the modelled supplies would not be able to achieve the required supply/demand balance, resulting in an unworkable methodology.
- **Issue Two - Price Variability**
  - Variability of NTS Exit Capacity prices in and around the Southern Scottish and Northern DN exit zones, and the Moffat exit point.
  - Occurs when the modelled supplies at St. Fergus are insufficient to meet the higher Scottish and Northern DN, and Moffat modelled demands.
  - Gas starts flowing North.
- **Issue Three - Baseline may no longer be reflective of "connected load"**
  - In developing GCM05, the intention was to better reflect the "connected load", recognising that the concepts of Firm and Interruptible capacity were no longer applicable.
  - Baseline plus incremental capacity as the modelled demand flow level may now no longer be reflective of the "connected load", particularly at DN offtakes and Moffat.

Demand Options

- **Annual Capacity Bookings**
  - Shipper & DNO applications for Enduring Annual NTS Exit (Flat) Capacity in Gas Year Y.
- **Baseline plus Incremental Capacity**
  - Implemented as a result of the GCM05 re-consultation.
  - This represents the level of capacity that National Grid is obliged to make available.
- **Forecast**
  - Used as the demand flows within the Transportation Model until 30th Sept 2012.
- **Maximum Supply Point Offtake Rate (MSPOR)**
  - The MSPOR is the instantaneous rate of offtake which National Grid NTS has determined to be the maximum instantaneous rate at which it is feasible to make gas available for offtake.
- **"Capability" of the downstream facility**
  - It was thought that it might be possible to define the "capability", but this has only be possible at Moffat.
- **Zero**
  - Currently used for modelling demand flows at Storage & Bi-directional Interconnectors* in order to avoid double-counting of costs when setting entry & exit capacity prices, and because they are expected to operate in entry mode during peak days.

* Both the ICUK, which is physically bi-directional, and BBL, which only has interruptible commercial exit services, are modelled as zero exit flow for price setting purposes.

Supply Options

Data Source options

- Ten Year Statement Forecast Supplies
  - No change from current methodology
- Supply at Baseline/Obligated Entry Capacity Levels

TYS "treatment" options

- Average of Ten Year Statement Forecast Supplies
- Ten Year Statement Forecast Supplies ~ Data from TYS ahead of the first (Y+4) Enduring Annual NTS Exit (Flat) Capacity applications for the relevant gas year

National Grid's interpretation of views

Demand Options	DC	DN	Storage	Bi-Directional Interconnector	Moffat
Baseline / Incremental (No case for change)	EDF, SSE, AEP	EDF, SSE, AEP			EDF, SSE
Bookings	SGN	SGN	SGN	SGN	SGN
Forecast Demand	BGT, MEL, EON, Gaslink	BGT, MEL, EON, Gaslink			BGT, MEL, BGE, Gaslink, EON, AEP
MSPOR	No Support				
Capability	No Support				
Zero			BGT, EDF, SSE, EON, AEP	BGT, EDF, SSE, EON, AEP	

Supply Treatments	Support	Against
Averaging of TYS	BGT, Gaslink	SSE, EDF
No View	MEL, BGE, EON	
More Discussion	SGN, AEP	
TYS @ (Y+4)		BGT, SSE, EDF
No View	MEL, BGE, EON, Gaslink	
More Discussion	SGN, AEP	

Summary

Support for waiting (6 For, 3 Against), prior to raising a UNC proposal, for the following reasons:

1. **Further Analysis**
2. **Project TransmiT**
3. **Reduction Window**
   - But, will have no impact on pricing as cannot reduce the obligated/incremental level
4. **Exit Substitution**
   - May have some impact on prices but likely to be small

Demands

General preference for Forecast

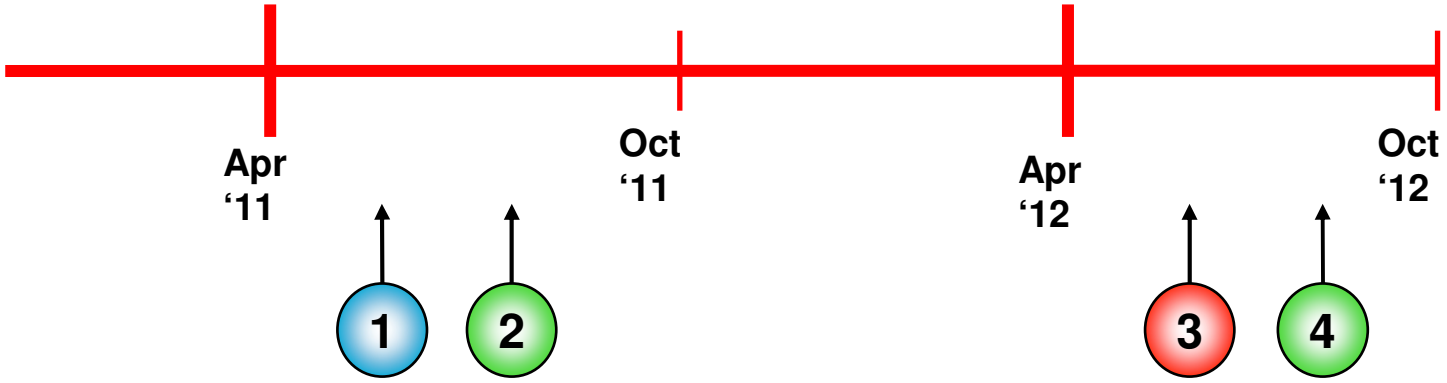
- Consistent across offtakes including a zero 'forecast' at Storage and Bi-directional Interconnectors

Supplies

General preference for Further Analysis

- Little support for Y+4
- Some support for Averaging of TYS

Next Steps?



1. Update Indicative prices for 12/13, 13/14. Set Indicatives for 14/15	May 11
2. Annual Application Window for Enduring and Annual Exit Capacity	July 11
3. Set Actual prices for 12/13. Update Indicatives for 13/14, 14/15. Indicatives for 15/16	May 12
4. Annual Application Window for Enduring and Annual Exit Capacity	July 12

A UNC Modification Proposal raised in January 2011 and following normal timescales would leave the following maximum Ofgem decision time:

- **1 week prior to 1st May 2011 when indicative prices would be published.**
- **10 weeks prior to July 2011 application window**

GCD09 Enduring NTS Exit Capacity Price Setting – Appendices
(FOR INFORMATION – NOT FOR PRESENTATION)

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High Level Responses

	Flow Data	Way Forward
BGT	Forecast Demand for DN &DC offtakes, and for Exit only Interconnectors. Zero exit flow for storage & bi-directional Interconnector flows, but in the case of the latter it will be necessary to closely monitor flow direction as this may change in future. Arguably, every exit point assumed to have a zero demand ought to have a minimum/zero exit capacity charge. Sees merit in averaging of a number of peak scenarios & TYS data.	Strong preference for a thorough assessment of alternative approaches because: • Impact or influence of TransmiT unclear. • Might be instructive to wait and see how bookings "settle down" after July 2011 capacity window.
SSE	The change options raised in this consultation paper may lead to future unknown unintended consequences that will require further amendments to the charging methodology.	Advocates waiting for: • Exit substitution to be implemented • The surrender of unwanted exit capacity in July 2011. If this does not remedy the issues then SSE would welcome a review to consider an alternative charging methodology.
EDF	Baseline plus incremental capacity method provides the most appropriate model at this time. No change to source supply data or its treatment.	Reasonable for any change to be put on hold until the outcomes of Project TransmiT are known. Any methodology change should be subject to testing. There does not appear to be a pressing need for GCD09 at this time, as the issues identified by National Grid do not take effect until 2012, and it is unclear whether they might disappear after the July 2011 withdrawal window. Insufficient evidence to demonstrate that this is not an issue specific to particular geographic areas.

High Level Responses

	Flow Data	Way Forward
EON	Current baselines are not reflective of system capability. Forecast Demand would solve Supply/Demand balance issue, but would introduce uncertainty. Does not support modelling different exit points with different data sources. Zero demand flow @ storage or bi-directional Interconnectors. No change to source supply data or its treatment.	Advocates waiting for: • Exit substitution to be implemented • The surrender of unwanted exit capacity in July 2011.
AEP	No case made for using different demand data at DC or DN offtake type; however, may be a case for using a different value at Moffat. Zero demand flow for storage offtakes and bi-directional Interconnectors. Some changes to supply data may be appropriate whilst recognising difficulties in determining where gas will enter the system on a peak day.	Cautions against short term changes. Further debate required over whether network capability or connected load is important in determining cost reflective charges. Further thought would need to be given as to how to allocate forecast demands between DN & DC offtakes. Considers supply / demand balancing rules (GCM16) be reviewed. Amendments to Appendix D (TYS vs. Obligated Entry level) & Appendix E (averaging approach). Helpful if NG could provide a breakdown of revenue recovery from different offtake types for each scenario / year, in absolute or percentage terms.
SGN	Enduring & Annual Exit (Flat) Capacity Bookings for all offtake types. No change to source supply data, but more discussion required around averaging or TYS Y+4 approach.	1st October 2011 may be more achievable.

High Level Responses

	Flow Data	Way Forward
MEL	Peak flow demand data at the Moffat Interconnector should be used which reflect more closely actual gas flows. Proposes use of Joint Capacity Statement as source of demand forecast for downstream of Moffat exit point.	Supports implementation by May 2011 ahead of the next exit application window.
BGE	Baseline + incremental has led to over inflated exit charge due to unrealistic demand signal received. Peak flow demand data at the Moffat Interconnector should be used which reflect more closely actual gas flows. Proposes use of Joint Capacity Statement as source of demand forecast for downstream of Moffat exit point.	Supports implementation by May 2011 ahead of the next exit application window. Suggests allowing applicants to revise bookings on an annual basis during the July booking window as this would lead to better and more accurate capacity requirement signals and hence a more realistic tariff.
Gaslink	Baseline + incremental has led to over inflated exit charge due to unrealistic demand signal received. Supply & demand data should represent peak day flows. Forecast demand should be used for all exit points, with Joint Capacity Statement used for Moffat. See merit in averaging TYS supply data.	Supports implementation by May 2011 ahead of the next exit application window. Any future consultation should address the question of how demand forecasts to be sued for flow modelling should be established. Believes that the User Commitment rules require amendment.

Further Analysis

	Further Analysis
BGT	Averaging of a number of Peak Day scenarios
SSE	Charging methodology based on a uniform rate, calculated by dividing the allowed revenue by baseline and incremental entry and exit capacity
EDF	Stress testing of any shortlisted proposals. Analysis of actual volatility in charges year on year – this should cover all exit points in GB, cover both pre and post GCM16 time periods and show year on year volatility as a percentage.
SGN	It would be helpful to describe how the Supply and Demand inputs to the Transportation model are determined at the moment. This would provide help in evaluating the changes which are being proposed.
Gaslink	Further consultation to address how demand forecasts to be sued for flow modelling at various types of exit points should be established. Analysis of price impacts of proposed approaches using realist demand forecasts for Moffat.
AEP	Further debate required over whether network capability or connected load is important in determining cost reflective charges. Further thought would need to be given as to how to allocate forecast demands between DN & DC offtakes. Considers supply / demand balancing rules (GCM16) be reviewed. Amendments to Appendix D (TYS vs. Obligated Entry level) & Appendix E (averaging approach). Helpful if NG could provide a breakdown of revenue recovery from different offtake types for each scenario / year, in absolute or percentage terms.